

**IN RE: THE APPLICATION FOR  
ALTERNATIVE METHOD OF RATE  
DETERMINATION  
MEDSTAR HEALTH  
  
BALTIMORE, MARYLAND**

**\* BEFORE THE MARYLAND HEALTH  
\* SERVICES COST REVIEW  
\* COMMISSION  
\* DOCKET: 2011  
\* FOLIO: 1917  
\* PROCEEDING: 2107A**

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**Staff Recommendation**

**March 2, 2011**

This recommendation was unanimously approved by the Commission on March 2, 2011.

## **I. INTRODUCTION**

MedStar Health filed an application with the HSCRC on February 3, 2011 on behalf of Union Memorial Hospital (the "Hospital") for an alternative method of rate determination (ARM), pursuant to COMAR 10.37.10.06. MedStar requests approval from the HSCRC to participate in a global rate arrangement for orthopedic services with the NFL Player Joint Replacement Benefit Plan (the "NFL Plan") for a one year period beginning March 1, 2011, with an option to seek renewal based upon favorable performance.

This arrangement was originally approved by the Commission at its December 5, 2007 public meeting for one year and subsequently re-approved in 2008 and 2009 with the approval expiring on December 1, 2010. While there has never been any activity, the NFL Plan and the Hospital wish to maintain the arrangement.

## **II. OVERVIEW OF APPLICATION**

The contract will continue to be held and administered by Helix Resources Management, Inc. (HRMI). HRMI will manage all financial transactions related to the global price contract including payments to the Hospital and bear all risk relating to services associated with the contract.

## **III. FEE DEVELOPMENT**

The hospital portion of the global rates was developed by calculating the mean historical charges for all patients receiving the procedures for which global rates are to be paid. The negotiated rates are comparable to another joint replacement ARM already approved by the HSCRC. The NFL Plan agreement does not include the more costly procedures to replace prior joint replacements. In addition, the agreement does not include the post-acute rehabilitation normally included in joint replacement global pricing. The remainder of the global rate is comprised of physician service costs.

## **IV. IDENTIFICATION AND ASSESSMENT OF RISK**

The Hospital will continue to submit bills to HRMI for all contracted and covered services. HRMI is responsible for billing the payer, collecting payments; disbursing

payments to the Hospital at its full HSCRC approved rates, and reimbursing the physicians. The Hospital contends that the arrangement between HRMI and the Hospital holds the Hospital harmless from any shortfalls in payment from the global price contract.

#### **V. STAFF EVALUATION**

The staff believes that the hospital component of the global rate is reasonably related to historical experience. Staff has noted that the NFL Plan agreement has a more narrower definition of the episode of care covered under the global rates than other similar ARM arrangements. In addition, staff found that the Hospital and HRMI have a favorable history of managing joint replacement patients and performing under a global rate arrangement. The physicians' professional components of the proposed rates follow historical fee for service averages and are closely related to the professional components of the Hospital's similar global arrangement involving orthopedic surgery.

#### **VI. STAFF RECOMMENDATION**

Although there has been no activity, staff still believes that the Hospital can achieve favorable performance under this arrangement. Therefore, staff recommends that: 1) the Commission waive the requirement for an alternative rate application to be filed at least 30 days before the proposed effective date of the alternative rate, and 2) the Commission approve the Hospital's request for participation in the alternative method of rate determination for orthopedic services for a one year period, commencing March 1, 2011. The Hospital will need to file a renewal application for review to be considered for continued participation.

Consistent with its policy paper regarding applications for alternative methods of rate determination, the staff recommends that this approval be contingent upon the execution of the standard Memorandum of Understanding ("MOU") with the Hospital for the approved contract. This document would formalize the understanding between the Commission and the Hospital, and would include provisions for such things as payments of HSCRC-approved rates, treatment of losses that may be attributed to the contract, quarterly and annual reporting, and confidentiality of data submitted, penalties for noncompliance, project

termination and/or alteration, on-going monitoring, and other issues specific to the proposed contract. The MOU will also stipulate that operating losses under the contract cannot be used to justify future requests for rate increases.